



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 29, 2015

The Honorable Christy L. Romero
Special Inspector General
for the Troubled Asset Relief Program
1801 L Street NW, 4th Floor
Washington, D.C. 20036

RE: Treasury Response to SIGTARP's July 2015 Quarterly Report

Dear Ms. Romero:

I write in response to SIGTARP's July 2015 Quarterly Report spotlight section, which discusses the denial of applications for assistance under Treasury's Home Affordable Modification Program (HAMP). HAMP has directly helped more than 1.5 million homeowners permanently modify their mortgages, and indirectly assisted millions more by setting new standards and changing industry practices that have led to more affordable and sustainable private modifications. While Treasury appreciates SIGTARP's analysis of Treasury's program data concerning denials, we write to clarify certain information discussed in SIGTARP's report.

First, Treasury has closely monitored the number of HAMP denials—and the reasons for those denials—since the program's launch in 2009, and this monitoring has spurred many enhancements to HAMP to assist more homeowners. For example, as noted in the report, the most common reason that applications for HAMP were denied is that borrowers did not submit the documentation necessary to evaluate their eligibility for HAMP. In response, Treasury has simplified documentation requirements where appropriate several times. Most recently, we introduced Streamline HAMP, which is targeted to borrowers who have not completed a HAMP application and have become seriously delinquent. The second most common reason for denial is that the borrower already had an affordable first lien mortgage payment (*i.e.*, a front-end debt-to-income ratio of less than 31%). Recognizing that a number of factors can contribute to a homeowner's hardship, in 2012 we expanded eligibility criteria through HAMP Tier 2 to provide a more flexible debt-to-income ratio and made other changes such as allowing modifications of mortgages on certain rental properties. The denial rate has declined due, in part, to these changes.

Second, Treasury employs robust compliance procedures to test whether servicers are adhering to HAMP program requirements and not improperly denying applicants. One aspect of this testing includes having our compliance agent review a random sample of loans to determine if they agree with the servicer's eligibility determination. From Q1 2014 to Q1 2015, the average error rate on this benchmark was 1.6 – 3.2 percent among the seven largest participating servicers, and those errors generally related to deficiencies in the process of soliciting potentially eligible borrowers to participate in HAMP rather than improper denials of completed HAMP applications, which our tests show are relatively uncommon.

More broadly, SIGTARP's report states that "[i]t is Treasury's responsibility to ensure that mortgage servicers participating in HAMP treat homeowners fairly." We agree, which is why our compliance agents perform a detailed review of servicers' compliance. Our compliance agent tests as many as 60 compliance criteria, through quarterly reviews of between 400 and 600 individual loan files at each of the seven largest HAMP servicers, and semi-annual reviews of the next four largest HAMP servicers. Testing of these servicers covers 94% of the active permanent HAMP modifications. Since 2011, we have publicly reported the results of our compliance reviews in quarterly MHA servicer assessments, and have withheld financial incentives from servicers that performed poorly. As a result, we have seen significant improvement in servicers' compliance with program guidelines, including proper evaluation and denial decisions. We continue to modify our compliance assessments by introducing new metrics and tightening benchmarks to ensure servicers focus on areas of continuing or emerging concern and to drive further improvement in servicers' compliance with MHA guidelines.

Lastly, since 2010, Treasury has publicly reported the outcomes for homeowners whose applications were not approved for HAMP, and the data demonstrate that a number of options remain to prevent foreclosures. Notably, HAMP also requires mortgage servicers to evaluate homeowners who do not qualify for HAMP for all other assistance options offered by the servicer. This is an important protection for homeowners and gives them another opportunity to get help and avoid foreclosure. As noted in Treasury's MHA program performance reports, the majority of homeowners who do not receive a HAMP modification find solutions through an alternative modification, short sale, or otherwise resolve their delinquency.

In closing, we note that one of the policy challenges of designing a program like HAMP, particularly given the severity of the recent housing crisis, is giving as many struggling homeowners as possible the chance to keep their home while recognizing that some foreclosures are unavoidable. We are always working to improve our housing programs and we appreciate your input in that regard. We look forward to continuing to work with you on HAMP and our other housing programs. Please contact me if you would like to discuss this issue further.

Sincerely,

A handwritten signature in dark ink, appearing to read "Mark McArdle", with a stylized, flowing script.

Mark McArdle
Chief, Homeownership Preservation Office,
Office of Financial Stability